

NPA's Committee on Changing International Realities and Their Implications for U.S. Policy

Profound changes have been taking place during the 1970s in the nature of the international political and economic system and in the position of the United States within it. These continuing developments involve new and highly complex kinds of interactions among nations. In consequence, many of the assumptions about international economic and political relationships that were relevant during the 1950s and '60s can no longer serve as valid bases for governmental and private policy making. Today and for the future, policy makers need new concepts and data relevant to the changing realities of the present period if they are to serve the interests of the United States and the welfare of the American people. And, because the United States has a predominantly private enterprise economy, policies affecting the ability of the U.S. private sector to function effectively both at home and abroad are of crucial importance for realizing these national goals.

Accordingly, in 1975, NPA established the Committee on Changing International Realities and Their Implications for U.S. Policy (CIR) to undertake a continuing two-part program. It consists of (1) research on the nature and probable future development of the new international realities and of U.S. capabilities and needs relative to them, and (2) based on these analyses and forecasts, suggestions for governmental and private policies to improve the international performance of the U.S. economy so that it can better protect and advance the interests of the United States and the well-being of the American people.

In accordance with NPA's practice, the CIR consists of experienced leaders from the main private-sector groups: business corporations and banks, labor unions, farm organizations, and the professions. The Committee meets twice a year to discuss subjects to be researched, to review outlines and drafts of studies under way and to consider their policy implications. Detailed guidance of the CIR's research program is carried on by subcommittees concerned with various subject areas. Professional and administrative staff services are provided to the Committee under the supervision of the Director of NPA's International Division.

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A Survey of the Impact of Manufactured Exports from Industrializing Countries in Asia and Latin America:

Must Export-Oriented Growth Be Disruptive?

BY LAWRENCE G. FRANKO

Coholder, U.S. Professorship of the Corporation
and Society, Center for Education in
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NPA Committee on
Changing International Realities

**A Survey of the Impact of Manufactured Exports from
Industrializing Countries in Asia and Latin America:
Must Export-Oriented Growth Be Disruptive?**

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A Statement by the Committee on Changing International Realities

The export of manufactured goods by the rapidly industrializing nations of Asia and Latin America is increasingly seen in the United States and other OECD countries as confronting them with a choice between disagreeable alternatives. Either more or less severe social and personal costs of adjustment must be imposed on workers and companies unable to compete in their own and other markets with developing countries' manufactured exports or recourse must be made to some form of protectionism.

These alternatives tend to dominate the debate on this subject in the United States and the other OECD nations. On the one side are those who urge that the employment and income costs to the OECD countries should be borne in the short term so as to obtain over the long term the gains to their living standards that would result from a liberal world trading system. In addition, they adduce the need to encourage economic growth in the developing countries by facilitating access for their exports to the markets of the high-income OECD nations. On the other side are those who point to the hardships imposed on displaced workers—many of them unwilling or unable to be relocated or retrained—in the OECD countries, to the impossibility of finding other employment for such workers in a period of generally slow economic growth, to the difficulty of financing and administering adequate adjustment-assistance programs, and to the imprudence of becoming too dependent upon politically unstable sources of supply. Some kind and degree of protection for the adversely affected industries, they conclude, is the only practicable alternative.

The task of resolving such policy issues can often be facilitated by better knowledge of the facts. In this case, the relevant factual data relate to the actual impact on OECD countries of increasing manufactured exports from developing nations. What has been the rate of growth of such imports in recent years? What industries and products in the importing countries have been adversely affected and by how much have imports' shares of domestic consumption increased? By how much has employment declined in these industries and was this displacement mainly due to competing imports or to other causes? How many of the displaced workers have found other employment? What has been the cost of adjustment assistance, unemployment insurance, early retirement, and other programs designed to take care of those workers unable to find new jobs? Some of the data needed to answer these questions are readily available; others are hard to locate or nonexistent. Nor does it necessarily follow that, even if all of the relevant facts were known and could be agreed upon by both sides, the policy debate could be readily resolved. Obviously, there are important interests involved on both sides whose urgency to the protagonists may be moderated but not reduced to unimportance by better knowledge of the facts.

The possibility of enlarging the area of agreement and moderating the urgency of the interests involved nevertheless appeared sufficiently high to NPA's Committee on Changing International Realities for it to commission Dr. Lawrence G. Franko to prepare this survey. It covers one type of relevant data: the composition, rates of growth and ratios of consumption to imports into the United States and other OECD countries of manufactured exports from the developing nations. It also provides information on the extent to which the barriers to trade adopted by some OECD countries, as well as by the developing-exporter nations themselves, have been diverting the latter's manufactured exports to a few importing countries, such as the United States, with relatively "open" economies. Finally, it discusses some of the ways in which trade barriers, particularly among developing countries, could be lowered in the coming years.^{1,2}

We believe that Dr. Franko's survey contains data and analyses that are useful in understanding and helping to resolve a difficult policy issue. Accordingly, without necessarily agreeing with all of his findings and conclusions, we are pleased to recommend that it be published by NPA as a report signed by its author.

1. An important potential problem for the OECD nations, worthy of expanded study, derives from Dr. Franko's observation that as capital becomes more available to LDCs, they may gain the competitive edge in exports having both high capital and labor content, especially if the technology is not highly advanced, and if raw material and energy resources are internally available — **Bruce H. Pauly**

2. It seems to me the survey served a very useful purpose, but to be complete, the survey should have had some reference to the effect of this competition on the marketplace and the benefit such competition has had for consumers who would otherwise have paid significantly more for products in many cases. Particularly, I have in mind the impact of foreign television and other similar electronic products on the U.S. market, but I think many examples can be found where such foreign competition has stimulated development in the United States, or at least tended to hold down prices here for the benefit of a larger number by far than just the workers directly displaced or forced to be more competitive — **Alonzo B. Kight**

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†See footnotes to the Statement

Introduction

The export thrust in manufactured goods of the upper-income less-developed countries (LDCs) is increasingly seen as confronting advanced countries, such as the United States, with a choice between two disagreeable alternatives. Either more or less severe social and personal costs of adjustment must be imposed upon workers and firms that find themselves unable to compete with the LDC thrust, or recourse must be made to some kind of protectionism.

Much of the debate in the United States and other advanced Organization for Economic Cooperation and Development countries has been dominated by those who incline toward one or the other of these alternatives. Neoclassical economists would have policy makers ignore immediate, real social dislocations in the hope of achieving an ideal, long-term economic equilibrium. Others would prefer to stanch immediate social wounds with protectionist measures, while discounting their potentially harmful long-term effects on the U.S. and other economies.

This study attempts to foster a different, hopefully more productive, debate aimed at balancing long-term economic and immediate social desires by reviewing: (1) the country and commodity composition of the LDC export thrust; (2) both the macroeconomic and the sectoral impacts of the LDC export thrust on the importing OECD economies; (3) the difficulties the LDC export thrust might pose for U.S. and OECD countries' economies and industries in the future; (4) the current state of and assumptions underlying OECD countries' policy responses to this thrust; (5) the degree to which barriers to trade set up by some developed countries and by the more advanced LDCs (ALDCs) themselves may play a role in disproportionately diverting exports of manufactures to a few "open" developed markets; (6) the causes for these barriers and their apparent increase during the past three years; and (7) the preconditions for lowering these barriers to trade, for coming to terms with the LDC desire for export-led development, and for maintaining one of the pillars on which postwar world prosperity was built—the General Agreement on Tariffs and Trade.

The Emergence of Exports of Manufactures from LDCs

1

LDCs have become significant exporters of manufactures quite recently and quite suddenly. The very suddenness of the emergence of the phenomenon is undoubtedly part of the problem. "The real growth rate of manufactured goods exports from 1965 to 1974 appears to have been on the order of 21 percent per year in developing East Asia and Latin America, 18 percent in the transitional countries of Southern Europe and the Mediterranean, and 15 percent . . . in North Africa and the Middle East."¹ Between 1965 and 1976, LDC exports of manufactures increased nearly tenfold, from \$4.6 billion to \$43.8 billion. The increase was particularly dramatic in 1976 with a jump of \$10.6 billion (32 percent) over the 1975 recession level of \$33.2 billion.² During 1977, LDC exports of manufactures increased again, but at the much reduced rate of 7 to 8 percent (total world trade expanded by 13 percent in 1977).³ In 1977, LDC exports of manufactures reached \$51.2 billion, or about 4.5 percent of total world trade.⁴

The mirror image of this LDC export thrust has been the rapid expansion of U.S. and other developed-country imports of manufactured goods from the LDCs. Between 1972 and 1977, U.S. and European Community (EC) imports of manufactures from the LDCs increased by a factor of 2.8 and 3.0 times, respectively, and by more than three times (from a much lower base) in the case of Japan (see Tables 1-1 and 1-2). In the United States alone, the rate of growth in imports of manufactures from the LDCs in the early 1970s was such that, over the slightly longer period from 1970 to 1977, total U.S. imports of manufactures from LDCs increased just over 4.8 times. However, in the electrical machinery sector, a sevenfold increase took place, and in footwear and leather goods, there were thirteen- and threefold increases, respectively. In sectors such as textiles, clothing, footwear, and leather goods, increases in U.S. imports of manufactures from the LDCs grew considerably faster than did total U.S. imports of these goods, to the point that by 1977 LDC suppliers provided one-half or more of U.S. imports in these product categories (see Table 1-3).

Only a handful of LDCs are in fact significant exporters of manufactures. In 1975, just eight middle-to-upper-income ALDCs accounted for nearly 80 percent

1. Donald B. Keesing, "World Trade and Output of Manufactures: Structural Trends and Developing Countries' Exports" (Washington, D.C.: World Bank, 1979), p. 20.

2. Donald B. Keesing and Phi Anh Plesch, "Recent Trends in Manufactured and Total Exports from Developing Countries" (Washington, D.C.: World Bank, Economics of Industry Division, June 6, 1977).

3. GATT, *International Trade, 1977/1978* (Geneva, 1978), pp. 4-7.

4. *Ibid.*, calculated from Table 7, p. 13.

TABLE 1-1: THE RICH WORLD'S TRADE IN MANUFACTURES
WITH THE POOR, 1972, 1974, 1976, and 1977
(Billions of dollars)

	United States's			European Community's			Japan's		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1972									
Oil LDCs	\$ 2.0	\$ 0.1	\$ 1.9	\$ 5.0	\$ 0.3	\$ 4.7	\$ 1.8	nil	\$ 1.8
Nonoil LDCs	7.6	6.1	1.5	12.8	4.2	8.6	7.1	\$ 1.2	6.0
Total LDCs	9.6	6.2	3.4	17.8	4.6	13.3	8.9	1.2	7.7
1974									
Oil LDCs	4.3	0.1	4.2	11.8	0.6	11.2	5.2	0.1	5.1
Nonoil LDCs	16.4	10.8	5.6	23.5	8.9	14.6	15.2	3.4	11.8
Total LDCs	20.7	10.9	9.8	35.3	9.5	25.8	20.4	3.5	16.9
1976									
Oil LDCs	10.0	0.1	9.8	23.3	0.6	22.7	9.0	0.1	8.9
Nonoil LDCs	18.5	14.8	3.7	25.7	11.1	14.7	16.3	3.5	12.9
Total LDCs	28.4	15.0	13.4	49.0	11.7	37.3	25.4	3.6	21.8
1977									
Oil LDCs	10.6	0.2	10.4	29.7	0.8	28.9	11.6	0.1	11.5
Nonoil LDCs	19.1	16.9	2.1	30.4	13.1	17.3	20.5	3.7	16.8
Total LDCs	29.6	17.1	12.5	60.1	13.9	46.2	32.1	3.8	28.3

Note: "Balance" figures may not equal exports minus imports due to rounding.

Sources: GATT, *International Trade*, various issues, and discussions with GATT officials.

of all LDC exports of manufactures (see Table 1-4). By 1976, Hong Kong, Taiwan and South Korea alone took over 48 percent of the total, with Brazil, India and Mexico accounting for much of the rest. The per capita incomes of these countries in 1975, as listed in the *World Bank Atlas* for 1977, were: Singapore, \$2,450; Hong Kong, \$1,760; Argentina, \$1,550; Yugoslavia, \$1,550; Mexico, \$1,050; Brazil, \$1,030; Taiwan, \$930; South Korea, \$560. India had a far lower per capita income of \$140. The World Bank lists 75 countries as having a lower per capita income than Taiwan. In contrast, U.S. per capita income in 1975 was \$7,120. Only Singapore and Hong Kong came close to reaching the levels of income attained by less-advanced OECD countries such as Ireland and Greece, which had per capita incomes of \$2,390 and \$2,340, respectively.⁵

Not all LDC exports of manufactures have gone to developed countries; in 1975, over \$10 billion, or 30 percent, went to other less-developed countries.⁶ In

5. World Bank, *World Bank Atlas* (Washington, D.C., 1977), p. 6.

6. For a review of LDC intratrade, see the U.N. Conference on Trade and Development, "Trade Among Developing Countries by Main SITC Groups and by Regions, Statistical Note by the UNCTAD Secretariat," TD/B/C-7/21 (September 20, 1978).

TABLE 1-2: THE GROWTH OF NORTH-SOUTH TRADE IN MANUFACTURES, 1972-77

	Percent Increase, 1972-77					
	United States's		European Community's		Japan's	
	Exports	Imports	Exports	Imports	Exports	Imports
Oil LDCs	530%	*	594%	*	644%	*
Nonoil LDCs	251	277%	237	312%	289	308%
Total LDCs	308	276	338	302	360	316

*Quantities involved are too small to be meaningful.
Source: GATT, as derived from Table 1-1.

fact, since 1970, LDC "intratrade" in manufactures has grown slightly faster (whether measured in value or volume terms) than have LDC exports of manufactures to advanced countries.⁷ Much of this trade in manufactures among LDCs occurred within major geographical regions, e.g., Asia with Asia, Latin American countries with other Latin American countries.⁸ However, with one or two exceptions, the major LDC exporters of manufactures have not been major importers of LDC manufactures. Among the eight leading LDC exporters of manufactures in 1976, only four—Hong Kong, Singapore, Argentina, and Brazil—got more than 10 percent of all their imports from other nonoil LDCs. Just three (the above minus Brazil) obtained more than 6 percent of their imports from the less-developed nonoil LDCs (see Table 1-5, columns II and IV).

Such limited trade among LDCs can be attributed partly to production or supply inelasticities (including an inability to supply export financing) in many of the yet lesser-developed countries (LLDCs), as well as to better-developed "South-North" (as opposed to "South-South") transport and communication routes. But, part of the explanation of the limited amount of intra-LDC trade is that several ALDCs have been shutting out manufactured goods imported from each other and from the LLDCs by protective trade policies. To be sure, two of the most successful ALDC exporters, Hong Kong and Singapore, have virtually no import protection. But, three of the leading LDC exporters—Korea, Taiwan and Brazil—have among the highest existing tariff barriers in textiles and clothing, products of major export interest to other ALDCs and potentially to LLDCs (see Chart 1-1). A similar situation prevails in footwear, basic fabricated metal products and other goods of export interest to LDCs. However, tariffs have often been among the

⁷ Ibid., Table 3.

⁸ Ibid.

TABLE 1-3: U.S. IMPORTS OF MANUFACTURES FROM LDCs, 1970 AND 1977,
(BILLIONS OF DOLLARS), AND AS A PERCENT
OF TOTAL U.S. IMPORTS IN EACH INDUSTRY

Industry	SITC #	U.S. Imports from LDCs (\$ bil.)		Imports from LDCs as a % of Total U.S. Industry Imports	
		1970	1977	1970	1977
Chemical elements	51	\$0.12	\$0.38	16%	12%
Medical and pharmaceutical	54	0.02	0.05	24	16
Perfumes	55	0.02	0.06	29	26
Fertilizers	56	0.01	0.03	6	4
Explosives	57	*	0.01	22	29
Plastics	58	*	0.03	2	7
Miscellaneous chemicals	59	*	0.03	8	8
Leather goods	61	0.04	0.13	31	55
Rubber goods	62	0.01	0.11	6	11
Wood and cork manufactures	63	0.20	0.58	48	56
Textiles	65	0.34	0.74	30	41
Nonmetallic manufactures	66	0.15	0.80	16	28
Iron and steel	67	0.07	0.51	4	9
Nonferrous metals	68	0.53	1.39	32	35
Miscellaneous metal manufactures	69	0.06	0.48	7	19
Nonelectrical machinery	71	0.08	0.64	3	7
Electrical machinery	72	0.47	3.61	20	42
Transport equipment	73	0.03	0.34	nil	2
Plumbing	81	0.01	0.05	19	46
Furniture	82	0.04	0.22	10	33
Handbags and luggage	83	0.04	0.32	41	79
Clothing	84	0.68	3.33	54	81
Footwear	85	0.08	1.04	14	55
Scientific equipment	86	0.02	0.50	3	21
Miscellaneous	89	0.53	1.84	27	34
		3.57	17.22		

*Less than \$0.01 billion.

Sources: OECD, Statistics of Foreign Trade Series C, 1970 and 1977. Sectors with imports from LDCs of less than \$0.01 billion are not shown. OECD, Trade Series B (January-December 1977).

least important barriers to trade among LDCs. Tariffs, even high tariffs, can often be jumped by low-cost producers. But, Korea, Taiwan, Brazil, Mexico, and India have frequently imposed import-licensing and quantitative restrictions that have all but prohibited imports of goods that could compete with local manufactures. Brazilian and Mexican protection of import-competing industry from other LDC producers has been somewhat, but only somewhat, attenuated by these countries' membership in the Latin America Free Trade Association. LAFTA preferences generally do not apply to industries of strong LDC comparative advantage, such as textiles, clothing and footwear.

AFFECTED SECTORS

Not only have LDC exports of manufactures been concentrated among a few exporting countries, they also have been concentrated in a few products and industries. In 1974, over one-half of LDC exports of manufactures to developed coun-

TABLE 1-4: LEADING DEVELOPING-ECONOMY EXPORTERS OF MANUFACTURES IN 1965 AND 1975

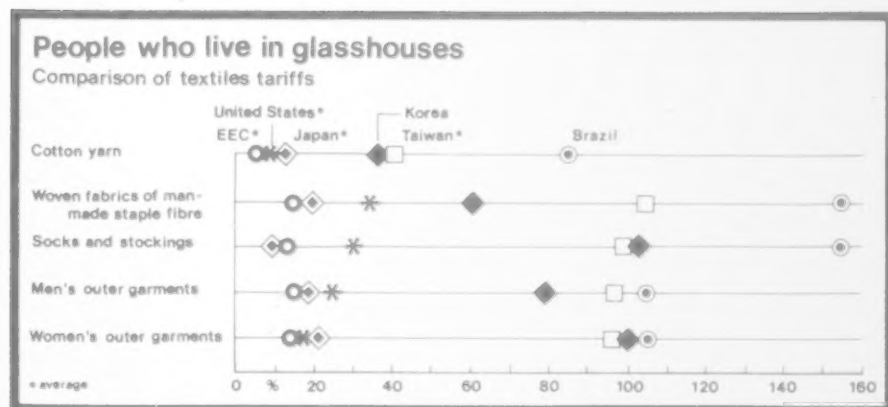
Country or Territory	Value (Mil. Current U.S. Dollars)		Percent Share		Cumulative Share 1975
	1965	1975	1965	1975	
Hong Kong (including reexports)	\$ 989	\$ 5,590	21.5%	16.8%	16.8%
excluding reexports	na	4,464	—	—	—
Taiwan	187	4,303	4.1	13.0	29.8
South Korea	104	4,136	2.3	12.5	42.3
Yugoslavia	617	2,781	13.4	8.4	50.7
Singapore (including reexports)	300	2,233	6.5	6.7	57.4
excluding reexports	na	1,286	—	—	—
Brazil	124	2,192	2.7	6.6	64.0
India	809	2,089 ^a	17.6	6.3	70.3
Mexico (including border)	166	1,967	3.6	5.9	76.2
Argentina	84	723	1.8	2.3	78.5
Malaysia	68	667	1.5	2.0	80.5
Pakistan	190 ^b	589	4.1	1.8	82.3
All developing countries	\$4,590	\$33,200	100.0	100.0	100.0

^aStatistical year ending March 30, 1976.

^bIncluding what is now Bangladesh (exported \$178 in 1975).

Sources: U.N. and national trade statistics from Donald B. Keesing and Phi Ann Fleisch, "Recent Trends in Manufactured and Total Exports from Developing Countries" (Washington, D.C.: World Bank, Economics of Industry Division, June 6, 1977).

Chart 1-1: COMPARISON OF TEXTILE TARIFFS



Source: *The Economist*, "Industries in Trouble" (December 31, 1977).

tries were centered in just three industry sectors: textiles, clothing and electronics and electrical machinery (see Table 1-6).

LDC exports to the United States alone show an only slightly lower degree of concentration (see Table 1-3). In 1976, electronics and electrical machinery, textiles and clothing, including footwear, accounted for 49 percent of the \$15.4 billion of total U.S. imports of manufactures from LDCs (imports of \$1 billion of basic nonferrous metals, sometimes excluded from such calculations, are included in this total). No less than 75 percent of all U.S. imports of manufactures from LDCs in 1976 were accounted for by these sectors plus leather goods, nonferrous metals and miscellaneous manufactures, such as jewelry.

In at least one of these sectors of noteworthy U.S. imports from LDCs, textiles (i.e., fibers and fabrics, *excluding* clothing), import penetration was more than compensated for by U.S. exports. In both 1976 and 1977, the United States had a slight positive balance of trade in textiles (see Table 1-7). The EC countries and Japan had even more favorable balances of trade in textiles.

Clothing, however, was quite a different matter: the United States and European countries, and to a lesser extent Japan, had large and growing negative trade balances in clothing in 1976 and 1977 (as shown in Table 1-7). Of the major OECD countries, only Italy and France had positive trade balances in clothing.

LDC exports to the United States were negligible or virtually nonexistent in sectors such as pharmaceuticals, chemicals, plastics, perfumes, transport equipment, and nonelectrical machinery—either in absolute terms or as a percentage of total imports (see Table 1-3). Indeed, these are the sectors in which U.S. exports to the LDCs are particularly notable. OECD trade data show these patterns

TABLE 1-5: INTRA-LDC TRADE OF THE NEW EXPORTERS
OF MANUFACTURES (ALDCs), 1976

New Exporter Countries	I	II	III	IV
	Exports to All Nonoil LDCs as a % of Total Exports	Imports from All Nonoil LDCs as a % of Total Imports	Exports to LDCs Excluding Exports to Other ALDCs as a % of Total Exports	Imports from Non-ALDCs as a % of Total Imports
Hong Kong	17.9%	26.7%	9.6%	8.2%
Taiwan	18.8	9.9	7.4	6.0
South Korea	12.7	8.1	6.2	6.0
Singapore*	43.0	28.6	30.2	22.0
Brazil**	15.4	11.3	10.0	4.0
India	18.3	8.1	15.6	6.0
Mexico**	14.8	9.0	7.1	4.0
Argentina**	29.4	30.4	15.6	17.0

*Member of ASEAN regional preferential trade area.

**Member of LAFTA regional preferential trade area.

Source: Derived from IMF, *Direction of Trade*, various issues.

to be characteristic of trade between the advanced countries and the ALDCs—and with little sign of change between 1973 and 1976. For example, exports from Brazil, Mexico and the four Far Eastern ALDCs (Hong Kong, South Korea, Taiwan, and Singapore) accounted for only 1.4 percent of all OECD imports of non-electrical machinery and less than 1 percent of all OECD imports of transport equipment in 1976. In contrast, these six ALDCs took over 7 percent of all OECD exports of chemical and machinery products.⁹

MARKET PENETRATION

Average rates of market penetration by LDC imports into advanced countries have been about 1 or, at most, 2 percent of total developed-country gross domestic products or consumption of manufactures (see Table 1-8 for comparative data for OECD countries). But, a few specific sectors—several of which consist of highly visible consumer goods—have been penetrated to a much higher degree. By 1973, in the cotton fabrics sector, LDCs had already captured over 6 percent of the U.S. market, 12 percent of all developed-country markets, and 25 percent of the Dutch and 27 percent of the British markets.¹⁰

⁹ OECD, *Trade Series C*.¹⁰ Keessing, "World Trade and Output of Manufactures."

TABLE 1-6: PRODUCT COMPOSITION OF DEVELOPING COUNTRIES' EXPORTS TO DEVELOPED COUNTRIES VERSUS OTHER DEVELOPING COUNTRIES, 1974^a
(Percent)

Product Group	To Developed Countries	To Other Developing Countries	Percent Going to Developed Countries ^b
Textiles	14.5%	18.1%	54.3%
Clothing	21.0	5.5	85.9
Electronics and electrical machinery	15.7	6.0	82.3
Other machinery and transport equipment	3.0	20.9	21.2
Chemicals	9.6	15.5	51.5
Iron and steel	4.7	6.2	57.9
Other manufactures	31.4	26.8	67.6
Total	100.0	100.0	63.4

^aYugoslavia is counted here as a developed country.

^bTaking into account exports (not shown) to centrally planned economies.

Sources: U.N., *Monthly Bulletin of Statistics* (May 1977); and Donald B. Keesing, "World Trade and Output of Manufactures: Structural Trends and Developing Countries' Exports" (Washington, D.C.: World Bank, 1979), p. 33.

Detailed, sector-by-sector import-to-consumption ratios for 77 relatively labor-intensive sectors of the United States have recently been calculated by Alexander Yeats of the Secretariat of the U.N. Conference on Trade and Development¹¹ (see Table 1-9). Because of the time and expense involved in putting disaggregated international trade and domestic production data on a comparable basis, detailed penetration data for nonlabor-intensive sectors are not yet available. Table 1-9 shows, however, that labor-intensive sectors in the United States were much more highly penetrated by LDC (and other) imports than were other sectors. Whereas all imports of manufactures from LDCs accounted for on-

11. Yeats defined labor-intensive industries according to the methodology used by Hal Lary in his seminal work, *Imports of Manufactures from Less Developed Countries* (New York: National Bureau of Economic Research, 1968).

"The general rule followed was to classify labor-intensive products as those which met two conditions: (1) the value added per employee did not exceed the national (U.S.) average for all manufacturing by more than 10 percent, and (2) imports by developed countries from LDCs totaled at least \$100,000 at the three-digit level of the Standard International Trade Classification system in 1965. According to the NBER reasoning, this approach excluded the most clearly capital-intensive products while applying the test of the market (as reflected in imports) to items at or near the national average." From Alexander Yeats and Ho Dal Tuong, "On Factor Proportions as a Guide to the Future Composition of Developing Country Exports," ms., January 1979. Yeats and Tuong's work on the U.S. case will be contained in a forthcoming manuscript tentatively entitled "Market Disruption, the New Protectionism and Developing Country Exports: Empirical Evidence from the United States."

TABLE 1-7: NET TRADE IN TEXTILES AND CLOTHING
IN SELECTED COUNTRIES, 1973, 1976
AND 1977
(Billions of dollars)

Country	Textiles			Clothing		
	1973	1976	1977	1973	1976	1977
U.S.	-\$0.36	\$0.32	\$0.17	-\$1.88	-\$3.05	-\$3.45
EC	1.97	1.47	1.70	- 0.89	- 2.75	- 2.68
France	0.29	- 0.27	- 0.13	0.45	0.13	0.19
Germany	0.30	0.30	- 0.07	- 1.63	- 2.72	- 2.99
Italy	0.62	0.80	1.15	1.11	1.85	2.24
Japan	1.32	2.39	2.84	- 0.20	- 0.37	- 0.41

Source: GATT, *International Trade, 1977/1978* (Geneva, 1978), p. 59.

ly 1.8 percent of U.S. consumption of manufactures in 1976, the average penetration in labor-intensive manufactures was 6.7 percent (see Table 1-9, lines 1 and 2). Still, there was a very wide dispersion of LDC penetration rates even within the labor-intensive product categories. Table 1-9 adds further testimony to the highly concentrated nature of LDC imports: in 1976, only 26 of the 77 labor-intensive sectors accounted for more than 5 percent of total U.S. consumption, and only 11 sectors accounted for more than 10 percent of U.S. consumption. These 11 highly penetrated product categories were floor coverings, travel goods and handbags, leather clothing, footwear, articles of rubber, imitation jewelry, watches and clocks, radio broadcast receivers, animal and marine oil products, jute products, and ropes and twine. (A still finer level of breakdown would, to be sure, almost certainly reveal many more highly penetrated markets. For example, information communicated to the author by Allan Grant, President of the American Farm Bureau Federation, suggests that concentrated frozen orange juice imports to the United States from Brazil alone went from less than 9 percent to more than 14 percent of U.S. consumption between 1973 and 1978.) At Yeats's level of disaggregation, only in floor coverings, leather clothing, footwear, radio receivers, and jute products had LDC exports been able to capture more than 20 percent of the U.S. market.

Although Table 1-9 indicates that, as of 1976, only a few of even the labor-intensive sectors of the U.S. economy were substantially penetrated by exports from LDCs, the comparison with 1967 summarized in the last column of that table does corroborate the view that in many product categories, the recorded increases in total U.S. imports during the 1967-76 decade were indeed due to increased imports from LDCs. In 31 of the relatively labor-intensive sectors for which Table 1-9 provides data, imports from LDCs accounted for one-half or more of the total recorded increase in U.S. imports. Thus, in many cases, LDCs did more than just displace imports which had formerly come to the United States from Europe, Canada and Japan.

LDC exports to other LDCs have also been highly concentrated, but in different industrial sectors. Table 1-6 shows that intermediate and capital goods are much more important to intra-LDC trade in manufactures than they so far have been in trade from LDCs to advanced-country markets. However, the fact that ALDCs have had some success in exporting standardized capital-intensive goods such as steel and chemical fibers to other LDCs has raised fears of eventual ALDC penetration of OECD markets in these sectors.

ABSORPTION BY ADVANCED COUNTRIES

Although LDC exports of manufactures have thus far been concentrated by source and sector, advanced-country markets appear relatively dispersed. The United States does import the largest single amount of LDC exports of manufactures; indeed, the United States has consistently taken four to five times the volume of LDC exports of manufactures taken by Japan, and 20 to 25 percent more than the EC (see Table 1-1).

TABLE 1-8: IMPORTS FROM DEVELOPING COUNTRIES AS A SHARE OF GDP IN 1974, 1976 AND 1977 AND AS AN ESTIMATED SHARE OF APPARENT CONSUMPTION OF MANUFACTURES IN 1973, IN SELECTED DEVELOPED COUNTRIES, LISTED IN ORDER OF 1977 PERCENT OF GDP

Country	GDP			Manufacturing Consumption 1973
	1974	1976	1977	
Belgium-Luxembourg	0.58%	1.64%	1.72%	0.9%
United Kingdom	0.88	1.31	1.31	1.3
Netherlands	0.82	1.02	1.11	1.6
Ireland	0.68	0.76	1.09	0.9
Switzerland	0.64	0.93	1.07	na
Australia	1.11	0.91	1.05	1.5
Norway	0.79	0.80	1.00	1.9
United States	0.69	0.88	0.91	1.1
New Zealand	1.59	1.24	0.90	1.6
West Germany	0.72	0.84	0.85	1.0
Sweden	0.66	0.75	0.80	1.0
Denmark	0.54	0.65	0.79	1.4
Italy	0.49	0.66	0.70	0.8
Canada	0.54	0.63	0.60	0.9
Japan	0.57	0.64	0.56	0.8
Austria	0.42	0.49	0.52	0.7
France	0.32	0.46	0.51	0.5
Spain	0.22	0.29	0.30	0.4

Note: Includes nonferrous metal imports from LDCs.

Sources: U.N., *Commodity Trade Statistics*, Series D as provided by GATT; OECD, *Main Economic Indicators* (for GDP data); *World Bank Atlas*, 1976; and estimates taking into account data in U.N., *Yearbook of Industrial Statistics*, 1975; *World Bank, World Tables*, 1976; U.N., *Yearbook of International Trade Statistics*, 1975; and, to some extent, GATT tables on protection in industrial products.

TABLE 1-9. CHANGES IN U.S. IMPORTS, DOMESTIC SHIPMENTS AND IMPORT-CONSUMPTION RATIOS FOR SELECTED MANUFACTURED PRODUCTS OVER THE PERIOD 1967 TO 1976 (VALUES IN MILLIONS OF DOLLARS)

Product Group	1967-76 Change		Import-Consumption Ratio (%)			% of Change due to LDCs*
	Domestic Shipments	Imports	1967	1976	Total	
All manufactures	\$585,833	\$55,464	0.7%	1.8%	3.6%	31.9%
Labor intensive	97,212	21,044	3.7	6.7	4.6	47.6
Textile yarn and thread	2,976	106	0.5	0.6	3.3	50.0
Woven cotton fabrics	-157	254	1.7	6.3	3.3	79.3
Woven wool fabrics	-520	-41	0.4	1.9	7.4	100.0
Woven silk or regenerated fibers	5,051	186	0.1	0.3	3.1	66.6
Knit fabric mills	2,804	26	0.1	0.1	3.0	—
Textile small wares	3,361	251	0.8	2.2	2.7	77.8
Floor coverings	-172	93	5.0	22.6	15.2	45.8
Clothing and accessories, nonleather	10,971	2,661	1.3	7.8	2.9	97.0
Manufactures of leather	-20	14	0.2	5.7	0.9	100.0
Travel goods and handbags	541	277	2.6	16.2	7.9	20.2
Leather clothing	290	283	4.5	31.1	16.3	38.2
Footwear	na	na	na	48.7	na	92.9
Fur clothing	-104	20	0.1	5.5	0.9	9.3
Articles of rubber	863	507	2.1	13.6	8.0	23.6
Glassware and pottery	2,786	350	0.3	1.2	5.8	8.9
Furniture	na	na	na	1.3	na	4.4
Printed matter	na	na	na	0.2	na	1.9
Motorcycles, bicycles and parts	468	538	0.1	2.7	33.2	47.3
Musical instruments and recorders	686	146	0.3	3.2	10.1	14.2
Toys, games and sporting goods	2,252	662	1.6	9.0	8.1	16.3
Jewelry and silverware	1,306	298	1.4	5.7	5.2	12.6
Articles of paper	na	na	na	0.3	na	0.6
Pins and needles of iron	215	17	0.4	1.2	2.5	4.3
Pens and pencils	322	22	0.0	0.3	2.8	4.5
Imitation jewelry	293	91	2.5	10.2	5.6	14.6
Miscellaneous manufactures	1,894	68	8.8	3.6	15.6	8.2
Orthopedic appliances	1,880	15	0.0	0.0	0.4	0.0
Spectacles and frames	400	135	0.1	2.5	4.8	16.0
Still picture equipment	147	244	0.0	6.2	12.3	37.0
Medical instruments, NES	982	95	0.1	0.6	4.1	7.5
Watches and clocks	504	486	0.2	14.1	15.3	32.7
Fabricated pipe and fittings	975	57	0.1	0.2	3.8	5.0
Hand and edge tools	664	190	0.6	3.0	8.2	15.9
Cutlery	147	115	1.6	8.4	29.9	38.8
Household equipment of base metal	611	137	0.8	5.6	5.7	12.0
Locksmith's wares	600	88	0.3	1.6	4.7	9.1
Miscellaneous metal articles	2,030	246	0.1	1.1	3.2	7.1

Sewing machines	85	151	0.2	6.3	47.1	56.8	62.8
Transformers, switchgears, etc.	1,090	1,094	0.4	6.8	5.2	18.7	47.4
Electrical insulating equipment	186	-1	0.0	2.8	4.5	2.8	-
Radio broadcast receivers	132	714	3.8	23.3	26.3	54.0	70.4
Telecommunications equipment, NES	6,703	1,714	0.2	3.0	1.5	9.7	32.9
Electromechanical domestic appliances, NES	796	30	0.1	0.2	2.0	3.0	10.0
Electric housewares and fans	921	287	0.0	3.0	1.3	13.0	25.6
Batteries and accumulators	218	44	1.3	2.2	5.5	10.8	17.0
Electric lamps	628	56	0.4	2.6	2.8	5.3	88.0
Electronic components	3,539	1,138	0.3	8.5	1.4	10.3	92.1
Lighting fixtures and fittings	1,284	49	0.3	1.0	2.1	2.8	100.0
Photographs, tape and sound recorders	37	846	0.1	4.9	6.6	31.2	19.5
Agricultural machinery and implements	4,823	585	0.0	0.1	6.8	9.1	4.3
Statistical and office machines	4,648	1,023	0.2	2.2	4.1	12.3	24.3
Metalworking machinery	1,320	163	0.0	0.4	4.1	5.7	25.0
Textile machinery	113	252	0.0	0.2	21.5	37.9	1.2
Paper mill and pulp mill machinery	194	54	0.0	0.1	7.9	12.3	2.3
Food-processing machines	562	39	0.0	0.1	1.8	3.8	5.0
Pumps and centrifuges	na	na	na	0.6	na	19.1	-
Miscellaneous nonelectrical machinery	na	na	na	1.5	na	26.2	-
Railway vehicles	1,358	51	0.0	0.0	0.5	1.8	0.0
Motor vehicle parts and accessories	13,672	3,329	0.0	0.5	3.8	13.5	5.2
Fish in airtight containers	818	140	3.4	4.8	16.7	15.4	-
Animal and marine oil products	75	-44	29.8	10.4	48.8	20.1	-
Canned or dried fruits and vegetables	3,050	257	1.9	3.5	4.6	6.1	100.0
Sugar, confectionary	1,925	58	0.0	0.4	1.0	2.0	40.0
Food preparations, NES	670	25	0.4	1.1	4.1	3.8	-
Cigars and cheroots	-99	17	0.3	4.6	0.7	6.9	69.4
Jute products and other textile goods	-12	-49	84.8	89.6	88.1	91.1	100.0
Corrage, cables, ropes, and twine	104	40	8.0	18.5	18.8	22.4	100.0
Textile bags	16	1	0.1	0.2	0.4	0.6	50.0
Leather	359	116	2.2	8.2	7.7	13.5	100.0
Wood shaped and worked	na	na	na	0.8	na	10.4	-
Plywood and veneers	na	na	na	7.5	na	10.4	-
Wood and cork manufactures, NES	na	na	na	2.0	na	5.2	-
Cut stone and stone products	196	17	0.1	0.7	5.8	6.8	60.0
Building materials of asbestos-cement	1,739	0	0.0	0.0	0.2	0.1	-
Clay construction materials	402	51	0.1	0.8	1.4	3.2	38.9
Nonmetallic minerals, NES	89	78	3.9	5.4	36.2	44.3	18.5
Flat glass	524	82	0.7	0.9	13.1	13.3	100.0

NES = not elsewhere specified

*Only positive changes in the total import-consumption ratio are assessed. In cases where the change in the LDC import-consumption ratio exceeds that for the total, developing countries are termed to account for 100 percent of the overall change.

Source: Alexander Yeats and Ho Dai Tuong, "On Factor Proportions as a Guide to the Future Composition of Developing Country Exports" (January 1979).

These figures are sometimes used to make the case that countries other than the United States are "not doing their fair share," or that the stream of LDC exports is being diverted disproportionately to the United States by other developed-countries' trade barriers. Some countries respond that, since the United States is the developed world's largest single market, it is to be expected that it would absorb the single largest quantity of LDC manufactured exports.

In fact, as a proportion of GDP, seven countries absorbed more imports of manufactures from LDCs in 1977 than did the United States (see Table 1-8): Belgium, the United Kingdom, the Netherlands, Ireland, Switzerland, Australia, and Norway. New Zealand, West Germany, Sweden, and Denmark were not far behind. Table 1-8 and what is known about the relative restrictiveness of trade policy in some countries, e.g., France and Spain, and institutional barriers in others, e.g., Japan, all show that the United States has been among the countries more open to LDC exports of manufactures. However, the evidence suggests that several other OECD countries have been even more open.

Impact of LDC Exports of Manufactures on the United States and Other Advanced Countries

2

In the United States, as well as in most other OECD countries, *total* imports of manufactures from all LDCs continue to constitute well under 2 percent of advanced-country gross national products. Thus, despite the rapid recent growth in the LDC export thrust, its aggregate job displacement impact so far is not large relative either to *total* domestic advanced-country employment or to changes in employment levels in these countries due to cyclical swings in GNP growth rates.¹

JOB LOSS AND DISLOCATION DIFFICULTIES

Job loss and displacement problems caused by imports of manufactures from LDCs have, however, occasionally been important—even dramatic—at the microeconomic level, due to substantial market penetration by LDC exports. The most highly penetrated sectors, i.e., clothing, footwear, leather goods, and certain categories of electrical products which require much hand assembly, are among the most labor-intensive sectors in manufacturing in the advanced countries. Furthermore, labor employed in these sectors in advanced countries tends to be relatively unskilled and immobile, and, therefore, often relatively difficult to absorb, even during cyclical upswings, into manufacturing or service sectors not experiencing similar competitive threats. Job loss and displacement problems are often rendered more difficult by the fact that many of the workers directly affected are well on in years.

Job loss and competitiveness problems have not struck all firms within the highly penetrated sectors with equal force. Smaller firms, specialized to a very narrow product line (such as women's blouses), those producing bottom of the line price-sensitive items in a single location, and those selling to bulk contract

1 This is not to say that the number of jobs "lost" (or, more accurately, displaced, if growth and absorption of the active labor force into employment is occurring elsewhere in the economy) is exactly and directly proportional to the ratio of increased imports to domestic production—albeit much of the literature on the employment effects of changing trade patterns makes such a simplistic assumption (See C. Hsieh, "Measuring the Effects of Trade Expansion on Employment: A Review of Some Research," *International Labour Review*, January 1973.) Job displacement will depend on the labor intensity of the products being displaced as well as on the indirect impact on labor in industries which are suppliers to the industry directly affected. Job losses from changes in trade flows will depend on the degree to which job displacement in import-competing sectors is offset by expanded exports and on the numbers of qualifications of workers directly and indirectly needed to supply those exports. Several studies, using more or less sophisticated methodologies, have been undertaken to examine the job displacement effects of changes in trade flows. All converge on the conclusion that these effects are small relative to the impact of other changes in the economy. See Hsieh, "Measuring the Effects"; DIW Institute, "Increased Trade with the Third World: German Workers Will Have to Switch Jobs but not Lose Them," *Wochenbericht* No. 5 (February 3, 1977); and R.E. Baldwin, "Trade and Employment Effects in the United States of Multilateral Tariff Reductions," *American Economic Review* (May 1976).

buyers have been the most vulnerable to LDC competition.² Producers of a diversified line of "up-market" fashion items, who have maintained or built close links to final customers and who have avoided the most price-sensitive standardized lines, have frequently been able to survive and even prosper. Their closeness to as opposed to their LDC and other competitors' distance from the marketplace has given them important advantages in being able to respond to changes in styles and in an early awareness of competitive moves.

Even for penetrated sectors, job loss and competitive problems arguably have been small during the past three years relative to the impact of the general slump on demand or of technological change. For example, U.S. textile and clothing industries employed 6 percent fewer people in 1976 than in 1973, yet U.S. output was slightly higher. And, total U.S. imports of textile products in equivalent square yards were almost identical in 1973 and 1976 (5.1 million equivalent square yards in both cases), although LDC exporters had substantially supplanted other exporters to the United States in the meantime.³ To be sure, however, part of the technological change which led to reductions in employment may well have itself been provoked by import competition. Studies undertaken in Germany show a dramatic increase in the capital intensity in the German textile industry between 1962 and 1973 as firms substituted capital for labor in a reasonably successful attempt to maintain their domestic market positions and profitability.⁴

Job loss may be only part of the problem that imports from LDCs are perceived as causing at the microeconomic level. Even if competing firms in advanced countries can stay in business, prices, and hence profits and wages in the industries with which these imports compete, may be held down by international competition to levels well below the general price level at times of inflation in advanced countries. In such sectors, workers—and if technology, styling or mechanization provide no solution, managers and investors—may then feel relatively deprived compared to those active in other sectors. Evidence suggests that LDC imports have indeed had this "price constraining" effect on the U.S. textile and clothing industries.⁵ It must be noted, however, that while such price constraining effects of LDC imports may negatively affect employment and profits in a particular sector, they are a *benefit* to consumers at large, especially in an economy concerned about inflation.

At the macroeconomic level, job loss in import-competing sectors may be more seriously felt at present because of the relative stagnation in total job crea-

2. See J. de la Torre et al., "Competition in the Apparel Industry," *Journal of International Business Studies* (Spring/Summer, 1977). This is one of the rare studies of job loss and competitiveness at a firm-by-firm within-sector level of disaggregation.

3. U.S. Department of Commerce.

4. H. Dicke et al., *Beschäftigungswirkungen einer verstärkten Arbeitsteilung Zwischen der Bundesrepublik und den Entwicklungsändern* (Tübingen, 1976), as cited in C.E.P.I. (Centre d'Etudes Prospectives et d'Informations Internationales), *Les économies industrialisées face à la concurrence du tiers monde, le cas de la filière textile* (Paris, 1978), p. 59.

5. Donald B. Keesing, "World Trade and Output of Manufactures: Structural Trends and Developing Countries Exports" (Washington, D.C.: World Bank, 1979), p. 20.

TABLE 2-1: TRENDS IN THE TRADE BALANCES AND FOREIGN-EXCHANGE RESERVE POSITIONS OF THE ALDCs, 1975-77—IMPROVEMENTS ACROSS THE BOARD

Country or Territory	Imports as a % of Exports*			Foreign-Exchange Reserves as a % of Imports**		
	1975	1976	1977	1975	1976	1977
Taiwan	105%	88%	85%	20%	21%	17%
South Korea	133	102	95	20	34	40
Singapore	141	129	119	37	37	37
Brazil	140	119	na	30	48	55
India	127	91	92	22	62	55
Mexico	218	166	127	23	21	31
Argentina	119	69	67	11	53	76

* Derived from IMF, *International Financial Statistics*, various issues.

** Derived from IMF, *Direction of Trade*, various issues.

tion in advanced countries due to inadequate new investment. Part of the explanation for the failure of the world economy to recover fully from the 1974-75 recession is clearly due to unsatisfactory business investment in plant and equipment.⁶ Deficiencies in world aggregate demand due to structural "oversaving" by some oil-exporting countries and environmentalist and other opposition to investments in sectors of manifest undercapacity, such as energy, are heavily responsible for this state of affairs.⁷ But, import competition and the uncertain threat of future import competition (and therefore of its price and profit constraint effects) may be inhibiting some investments in some sectors.

Less well known than the stagnation of investment in physical capital has been an equally or perhaps more important stagnation of investment in innovation: real, inflation-adjusted research and development (R&D) undertaken by private U.S. firms has shown little growth during the past five years, and the substantial decline in government-funded R&D in the United States during the past decade is well documented.⁸ This investment stagnation, however, can hardly be blamed on LDCs or cured through protection; much of the problem has to do with domestic regulation, energy cost, litigation, and other uncertainties which act as "barriers to supply."

Even less often discussed than the aggregate inadequacy of new investment in plant and equipment and R&D (at least in the context of the impact of import competition) is the problem of matching the kinds of jobs which would be

6 Lawrence R. Klein, "Waiting for the Revival of Capital Formation," *The World Economy* (October 1977), p. 37.

7 Lawrence G. Franko, "Developing Country Debt, Trade and the Prospects for World Economic Growth," in L.G. Franko and M. Seiber, eds., *Developing Country Debt* (N.Y. and London: Pergamon Press, forthcoming 1979).

8 Rachel McCulloch, *Research and Development as a Determinant of U.S. International Competitiveness* (Washington, D.C.: NPA, Committee on Changing International Realities, 1978).

created by new investment with the skill levels of new entrants into the labor market. Competition in low-wage labor-intensive industry may not only cause *adjustment* problems (of greater or lesser severity depending on the general rate of growth in the economy) for displaced experienced workers, but may also cause, at least in a world of minimum wage rates, jobs for unskilled new entrants into the labor market (e.g., black, urban teenagers) to be *literally* lost to the economy.⁹ Displaced experienced workers with limited skills at least have the "skill" of industrial discipline which can make them (eventually) trainable and employable in other industries. By failing to provide a kind of investment in human capital which would give new entrants into the labor market access to the even more skill-intensive economic structure necessary for an advanced economy to accommodate LDC imports, an advanced country undergoing the progressive loss of low-skill jobs risks creating an unemployable "underclass."

LDCs AS CUSTOMERS

One cannot, however, focus exclusively on the job loss and dislocation difficulties caused in advanced countries by LDC exports of manufactures. Not only would this focus ignore other sources of job loss—or failures of job creation such as inadequate physical and human investment—it would also discount the major and growing role of the primary LDC exporters as customers for U.S. and other advanced-country exports. The ALDCs constitute a threat for some industries, but an opportunity for others. Since 1970, the ALDCs have annually taken more than 6 percent of total OECD exports of manufactured goods, amounting to \$465 billion in 1976. The nonoil LDCs combined took a total of 14 percent of OECD manufactures in 1976. Japan imported a dramatically lower 1.5 percent.¹⁰ In 1976, U.S. exports to all nonoil LDCs surpassed U.S. exports to the EC. Equal to \$28.2 billion, these exports accounted directly for 1.65 percent of U.S. GNP, and, taking account of the usual multiplier and indirect effects, the result would be double that amount, or no less than 3.3 percent of U.S. GNP.

As rapidly as LDC exports of manufactures grew during the early 1970s, it is clear that advanced-country exports of manufactures to LDCs grew even faster (see Tables 1-1 and 1-2). In 1976, the ALDCs alone purchased \$15.6 billion of U.S. goods.¹¹ This amount was around 50 percent greater than U.S. exports to Japan in that year.

Since 1976, however, while manufactured exports *from* the ALDCs continued to grow at rates exceeding 20 percent a year, these countries' imports grew much more slowly (see Table 1-8). A similar slowdown in nonoil LDC imports generally was noticeable (see Table 1-1). Largely as a result of government

9. For a discussion of this structural employment problem, see H. Peter Gray, "Structural Consequences of Changing International Trade Patterns and Possible Alternative Policies," paper prepared for the Hudson Institute and the U.S. Department of State, January 25, 1979.

10. OECD, Trade Series C data.

11. IMF, *Direction of Trade*, various issues. See Table 2-2 for details.

economic policies which restricted their growth rates to lower-than-traditional levels, but also because of increased protection and export promotion in several cases, all of the ALDCs managed by 1977 to reduce substantially or eliminate altogether the postoil-shock trade deficits they had run in 1975. Taiwan, Korea, India, and Argentina even moved into trade surplus by 1977. And, all except Taiwan and Singapore improved their holdings of foreign-exchange reserves relative to imports, albeit from what were often viewed in 1975 as dangerously low levels (see Table 2-1).

The United States in particular saw its imports from the ALDCs increase rapidly while its exports to those countries as a group virtually stagnated between 1975 and 1977 (see Table 2-2). Between 1975 and 1976, U.S. exports to all nonoil LDCs dropped nearly 2 percent in current dollars. In real terms, of course, the fall was greater. U.S. exports to Brazil, Mexico and India continued to decline in 1977. The OECD estimates that about \$15 billion of the \$40 billion negative swing in the U.S. trade balance between 1975 and 1977 was in trade with the developing non-Organization of Petroleum Exporting Countries. The swing in the U.S. trade balance with the ALDCs alone was from a positive \$3.75 billion in 1974 to a negative \$1.5 billion in 1977.¹² In the latter year, Hong Kong and Taiwan had trade surpluses with the United States of \$1.8 billion and \$1.5 billion, respectively, although the United States continued to run trade-account surpluses with all of the other ALDCs except South Korea. As the data presented for each of the

TABLE 2-2: U.S. EXPORTS: WORLD AND TO SELECTED ALDCs
(Annual figures in billions of dollars and % change on
previous year or period in parentheses)

U.S. Exports to:	1974	1975	1976	1977
World	98.5	107.5	115.0	120.2
(% change)	(+ 38%)	(+ 9%)	(+ 7%)	(+ 4%)
Hong Kong	0.9	0.8	1.1	1.3
	(+ 16%)	(- 9%)	(+ 18%)	(+ 14%)
Taiwan	1.4	1.7	1.6	1.8
	(+ 22%)	(+ 16%)	(- 1.5%)	(+ 9%)
South Korea	1.5	1.8	2.0	2.4
	(+ 25%)	(+ 14%)	(+ 14%)	(+ 4%)
Singapore	1.0	1.0	1.0	1.3
	(+ 31%)	(- 1%)	(+ 3%)	(+ 18%)
Brazil	3.1	3.0	2.8	2.5
	(+ 61%)	(- 1%)	(- 9%)	(13%)
India	0.8	1.3	1.1	0.8
	(+ 31%)	(+ 41%)	(- 13%)	(- 46%)
Mexico	4.9	5.1	5.0	4.8
	(+ 65%)	(+ 6%)	(- 3%)	(- 4%)
Argentina	0.6	0.6	0.5	0.7
	(+ 25%)	(+ 5%)	(- 15%)	(+ 26%)
All ALDCs	14.2	15.3	15.1	15.6

Source: IMF, *Direction of Trade*, various issues.

TABLE 2-3: IMPORTANCE OF THE UNITED STATES AS A MARKET FOR AND SOURCE OF SUPPLY TO THE ALDCs AS A % OF WORLD MARKETS AND SUPPLY SOURCES, 1974 AND 1977

Country or Territory	ALDC Exports to the U.S. as a % of Total ALDC Exports		ALDC Imports from the U.S. as a % of Total ALDC Imports	
	1974	1977	1974	1977
Hong Kong	26%	32%	14%	12%
Taiwan	37	39	24	26
South Korea	33	31	25	23
Singapore	15	15	14	13
Brazil	22	17	24	21
India	13	14	14	15
Mexico	57	63	62	67
Argentina	8	6	17	18
All ALDCs	25	26	24	22

Source: Appendix 1

ALDCs in Appendix 1 show, the dollar amounts of these U.S. trade surpluses with the ALDCs diminished markedly between 1974 and 1977.

Relatively little of the deterioration in the U.S. trade balance with the ALDCs between 1974 and 1976 appears to have been due to a general decline in the overall competitiveness of U.S. export or import-competing industries, relative to industries in other countries which export to or import from the ALDCs. Table 2-3 shows that the proportion of total ALDC exports which consisted of exports to the United States (about one-quarter) remained virtually constant between 1974 and 1977, despite the fact that Hong Kong's and Mexico's exports became notably more United States-oriented during that time. Similarly, there was only a slight overall drop in the U.S.-supplied share of all ALDC imports during the period.

Much of the recent deterioration in the U.S.'s and other countries' trade balances with the ALDCs can be explained by the fact that several of the ALDCs had rates of economic growth rather below historic averages (while U.S. growth in particular resumed). Mexico, Brazil and Singapore, for example, had real rates of GNP growth in 1977 which were one-third to one-half the 10 to 12 percent rates these countries experienced during the 1963-73 decade.¹² However, a more complete explanation for the change must note that policy makers in the ALDCs chose to reduce growth and to restrict imports and promote exports even more than they normally did. Their reasons for doing so included the following

12. Derived from data in IMF, *Direction of Trade*, various issues, as presented in Appendix 1.

- (1) Faced with the oil price increase of late 1973, the industrializing LDCs suddenly had a balance-of-payments, capacity-to-import constraint to growth.
- (2) During 1974 and 1975, however, they were able to borrow heavily from the private banks and Eurodollar markets with which OPEC had placed its surplus funds.
- (3) In 1976 and 1977, fears of "too much debt" ("too much," compared to what, was often not clear) led private markets gradually to reduce their net lending to nonoil LDCs. U.S. Treasury figures indicate a decline from \$11 billion to \$5 billion between 1976 and 1977.¹⁴ Although many proposals were advanced to supplement short-term, risk-averse private lending with longer-term public facilities, it took nearly three years for the U.S. Congress to approve the proposed Witteveen expansion of International Monetary Fund resources, and only recently has retrenchment of Export-Import Bank long-term lending been replaced by modest expansion.
- (4) Simultaneously, countries such as Brazil followed advice to "tighten their belts" and initiated a policy of import reduction by levying large new tariffs or by tightening quantitative or government purchasing restrictions on top of already existing high-tariff protective structures.
- (5) Because of the terms of the debts incurred by the LDCs, these countries attempted to accelerate the already rapid growth of their exports of manufactures in order to earn the foreign exchange with which to pay back these debts. Export subsidies and "incentive contracts" holding the profitability of affiliates of multinational firms hostage against export performances proliferated.¹⁵

From the point of view of the United States and other developed countries, it could be asserted that the ALDCs have succeeded all too well in coping with the difficult economic management problem handed to them by the OPEC oil price revolution. Although Brazil and Mexico continue to have debt service-to-export ratios which are considered high by historical standards,¹⁶ the much vaunted LDC "debt problem" has—at least insofar as the ALDCs are

13. World Bank data. Brazil's rate of growth in 1977, for example, decelerated to less than 5 percent, compared to 9 percent in 1976 (GATT, *International Trade, 1976/77*, p. 106).

14. U.S. Treasury Department, "Report on the External Debt of Developing Countries and on Debt Relief Provided by the United States, Annual Submission to the U.S. Congress" (January 31, 1978).

15. On the Brazilian use of multinational firms' affiliates as instruments of import restraint and export promotion, see *The Wall Street Journal*, "Hot Tubs in Rio," October 8, 1976, p. 1, and Stefan H. Robock, "Controlling Multinational Enterprises: The Brazilian Experience," *Journal of Contemporary Business* (Autumn 1977).

16. Estimates of gross interest and amortization due on external public and private debt, as a percentage of exports of goods and services, range as high as 41 percent in the case of Brazil and 46 percent in the case of Mexico for 1977 (based on discussions with World Bank and OECD officials). Debt service ratios for the Far Eastern ALDCs all dropped under 10 percent in 1977.

concerned—exacerbated trade problems for the United States and other OECD countries.

The advanced countries' trade problems should be kept in perspective, however.

- (1) LDC exports of manufactures have been disruptive in a few specific sectors—but only a few—due to their concentration by product group.
- (2) Import competition from LDCs has been particularly severe in sectors which employ relatively unskilled people. Thus, such competition in the aggregate may have compounded the employability problem of new entrants into a labor market constrained by a minimum wage and skewed toward offering jobs to the more highly skilled. Nonetheless, an insufficient educational infrastructure can as easily be held responsible for this state of affairs as can LDC imports.
- (3) The impact of LDC market penetration appears to have been small, relative to the impact of inadequate investment in physical and human capital in advanced economies and substantial shortfalls in exports to LDCs, especially to nonoil LDCs during 1976 and 1977.
- (4) The deterioration in advanced-country trade surpluses with the ALDCs through 1977 was, in large part, due to a forced pace of increase in LDC exports, accompanied by the ALDCs' choices of policies of lower growth and neomercantilist restrictions on imports, which were part of panic reactions to the oil price shock. That reaction can be traced primarily to the short- and medium-term maturity structure of the ALDCs' debt incurred in world financial markets as the ALDCs attempted to cope with that shock. Perhaps one appropriate policy response by developed countries to this would include larger and longer-term IMF lending facilities to stretch out the term structure of repayments facing the ALDCs, rather than only attacking the trade-policy symptoms of that term structure.

Future Problems

3

That trade in manufactures with the advanced LDCs has thus far posed relatively modest problems for the United States and other advanced countries is not in itself sufficient assurance that such problems will continue to be modest. Some future problems will almost certainly be more important.

TRADE-BALANCE PROBLEM

Some of the difficulties posed for advanced countries by the ALDC thrust may be easily amenable to solution, or already in the process of resolving themselves. The trade-balance problem may be one of these: figures released by the GATT state that, in 1978, exports by industrial countries to all nonoil LDCs grew by 20 percent whereas imports from them increased by only 10 percent. It is yet unknown whether this improvement was due to a longer-term view of balance-of-payments financing by nonoil LDCs and their bankers, or to lower prices for those nonoil LDC exports of raw materials, or to the initial workings of the considerable number of protective measures taken by the advanced countries against LDC exports (in textiles, clothing, footwear, and some consumer electronics).¹ The manifold, and apparently expanding, export promotion policies of most advanced countries—including the increase in Export-Import Bank activity heralded in the new U.S. export policy—may nonetheless be bearing some fruit in the form of allowing the LDCs to buy more goods, especially investment goods, from the advanced countries.² Some of these export promotion efforts may involve unfair, "cut-rate" interest-rate financing of a type which can cause (and is causing) substantial irritation among advanced countries. Nevertheless, to the extent that such lending expands the available "pie" of long-term financing to LDC purchasers, the risk that there will be some jostling for shares of that pie is probably worth taking.

STRUCTURAL ADJUSTMENT PROBLEM

The longer-term structural adjustment problem posed for the United States and the OECD world by the ALDC thrust may not, however, be as easily soluble as

1. For a compendium of recent protective measures taken by advanced countries, see IMF, *The Rise in Protectionism* (Washington, D.C., 1978).

2. For surveys of comparative export promotion and financing policies of various advanced countries, see U.S. Senate Committee on Banking, Housing and Urban Affairs, Subcommittee on International Finance, *Hearings on Export Policy* (Spring 1978), especially Vol. 3.

TABLE 3-1: LABOR COST COMPARISONS IN TEXTILE PRODUCTION (INCLUDING FRINGE BENEFITS), 1976/1977

Country	U.S. \$ Per Hour
Belgium	\$8.27
Holland	7.28
Sweden	7.20
Germany	6.90
Italy	5.15
United States	4.40
France	3.76
United Kingdom	3.14
Brazil	0.92
Korea	0.45
Pakistan	0.28

Source: World Bank.

that of keeping two-way trade expanding and in reasonable balance. Even if market penetration by LDCs were to proceed at a relatively leisurely pace (and past rates of increase sometimes have been by no means leisurely in particular sectors), absorption of this penetration could require major training and educational efforts, as well as more or less disguised alterations in the minimum wage,¹ to cope with the labor-market problems caused by the progressive loss of low-skilled jobs to advanced economies.

There seems, in fact, little reason for the pace of LDC penetration to slow down of its own accord, other things (such as an absence of a vast increase in *intra*-LDC trade) being unchanged. Many of the marketing, distance and distribution-channel barriers to LDC success in advanced-country markets have been broken down. And, despite rapid increases in wage rates in the ALDCs (and even currency revaluations against the dollar by Hong Kong and Singapore), the differentials in wage rates for unskilled, and even semiskilled, workers between OECD countries and the ALDCs are likely to remain vast. The huge gaps in labor costs between developed and less-developed countries shown in Table 3-1 are unlikely to close soon. Moreover, given the very rapid and successful pace of industrialization in the ALDCs, e.g., a nearly 400 percent increase in industrial output in South Korea between 1971 and 1977,⁴ competitive thrusts have begun appearing on a broader front.

1. An example of this is the relating of social security charges to employers of teenagers, as is currently being practiced by France.

4. World Bank, *World Development Report 1978* (Washington, D.C., August 1978), annex tables.

THE NEW LDC EXPORT THRUST: DIVERSIFICATION

Partly as a response to the orderly marketing agreements and other protective devices imposed on some of their exports, several of the ALDCs have begun a drive to diversify both their export industries and their export markets. Paradoxically, such export diversification could mitigate for the United States and OECD countries one of the most disruptive features of the previous advance: the rifle-shot concentration of LDC exports in a very small number of highly labor-intensive developed-country industries. Indeed, it is conceivable that Japanese exporters may have more to fear from this new wave of ALDC competition than will U.S. and European import-competing industries.⁵ Such a result for Western industries is, nevertheless, not certain, and even marginal advances into world markets by LDCs could be painful for profitability in industries with high fixed-cost production facilities, especially should demand be highly sensitive to price.

Studies are not yet available which pinpoint with precision the sectors which may next be most vulnerable to LDC export thrusts,⁶ but a tentative checklist of potential LDC competitive advantages—and disadvantages—can at least be hazarded. Clearly, the ALDCs have shown that they have lasting competitive advantages in products which require a large input of low-cost, often female, manual production labor. But, cheap unskilled labor may no longer be their only advantage. Over a decade ago, Raymond Vernon's product-cycle theory of international trade and investment suggested that when and if the LDCs could overcome the hurdle of obtaining sufficient capital to build world-scale plants in mature, technologically stable industries, in which standard products were sold to a world market on the basis of price, these LDCs would emerge as potent competitors in relatively capital-intensive industries.⁷ If this view of the process of international trade is correct, the recently acquired access of the ALDCs to international capital markets—an access clearly necessary to underpin the flow of advanced-country high-technology exports to those ALDCs—probably does augment the vulnerability of some capital- (but not technology-) intensive sectors in the advanced countries. Some observers attribute much of the (as yet very limited) penetration by LDCs of advanced-country markets in steel, basic chemicals and synthetic fibers primarily to one form or another of subsidization by exporting countries. The extent to which this is or is not generally the case would require lengthy and expensive investigation, although examples, some notorious, do exist. But, if the product-cycle view is accurate, it is perhaps more important to note that after the ALDCs build up plant scale toward optimum size

5. This hypothesis is advanced in Gene Gregory, "Asian Newcomers Carve up Japan's Key Markets," *Far Eastern Economic Review* (February 24, 1978).

6. A notable exception is a study prepared for the Joint Economic Committee by Stephen B. Watkins and John R. Karklik on "Anticipating Disruptive Imports," published in *New International Realities* (NPA, Summer 1978), pp. 9-20. This material was subsequently released by the Joint Economic Committee.

7. Raymond Vernon, "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics* (May 1966).

for their *domestic* market, their low production-labor costs could eventually give them a critical competitive edge in world markets even *without* continuing subsidization. As Chart 3-1 shows for the case of synthetic fiber production, several LDCs are probably at or near this point in some capital-intensive products. South Korea's production volume had already surpassed that of France in 1975, and Brazilian and Mexican output are not far behind.

The moral appears to be that any advanced-country sector which is weak in innovation in technology and marketing, and which uses many people with modest skill levels in production, may be vulnerable to LDC competition.⁸ In theory, such low-skill, low R&D sectors could be even more vulnerable where important components of production costs consist of expenditures for energy, raw materials, land, or environmental controls.⁹ Thus far, as a result primarily of political, social, management, and labor-force deficiencies, a true LDC challenge in standardized mature manufactures based on potential LDC advantages in cheap energy, ores or pollution-havens has not yet materialized. Some Brazilian and Mexican exports may be based on such advantages (or on the hopes of realizing such advantages once economic scale is reached), but those of the Asian ALDCs manifestly are not. However, forecasts of possible future OPEC penetration in base chemicals or energy-intensive metals production are not totally implausible.¹⁰

Fortunately for the management by advanced countries of the longer-term process of adjustment to LDC market penetration in lower-technology manufactures, the LDCs also have some more or less significant competitive disadvantages to overcome in their attempt to broaden their export base. Even in labor-intensive manufactures, many LDCs lack basic political and social stability and industrial discipline. And, LDCs lack workers skilled in maintenance and batch production, as well as designers, technical salespeople, graduate engineers, and managers for large-scale, sophisticated systems. (Admittedly, the ALDCs have, in many cases, been making good many of these deficiencies—sometimes with the help of others. For example, Japanese firms are or have been part owners in South Korea's nascent synthetic fiber industry.¹¹) In the lower-technology capital- and resource-intensive industries, the pace of LDC advance may be slowed by sheer scale requirements (financial and managerial), transport costs and political and other uncertainties. Furthermore, the long investment lead times and the highly visible nature of such investments should make it possible

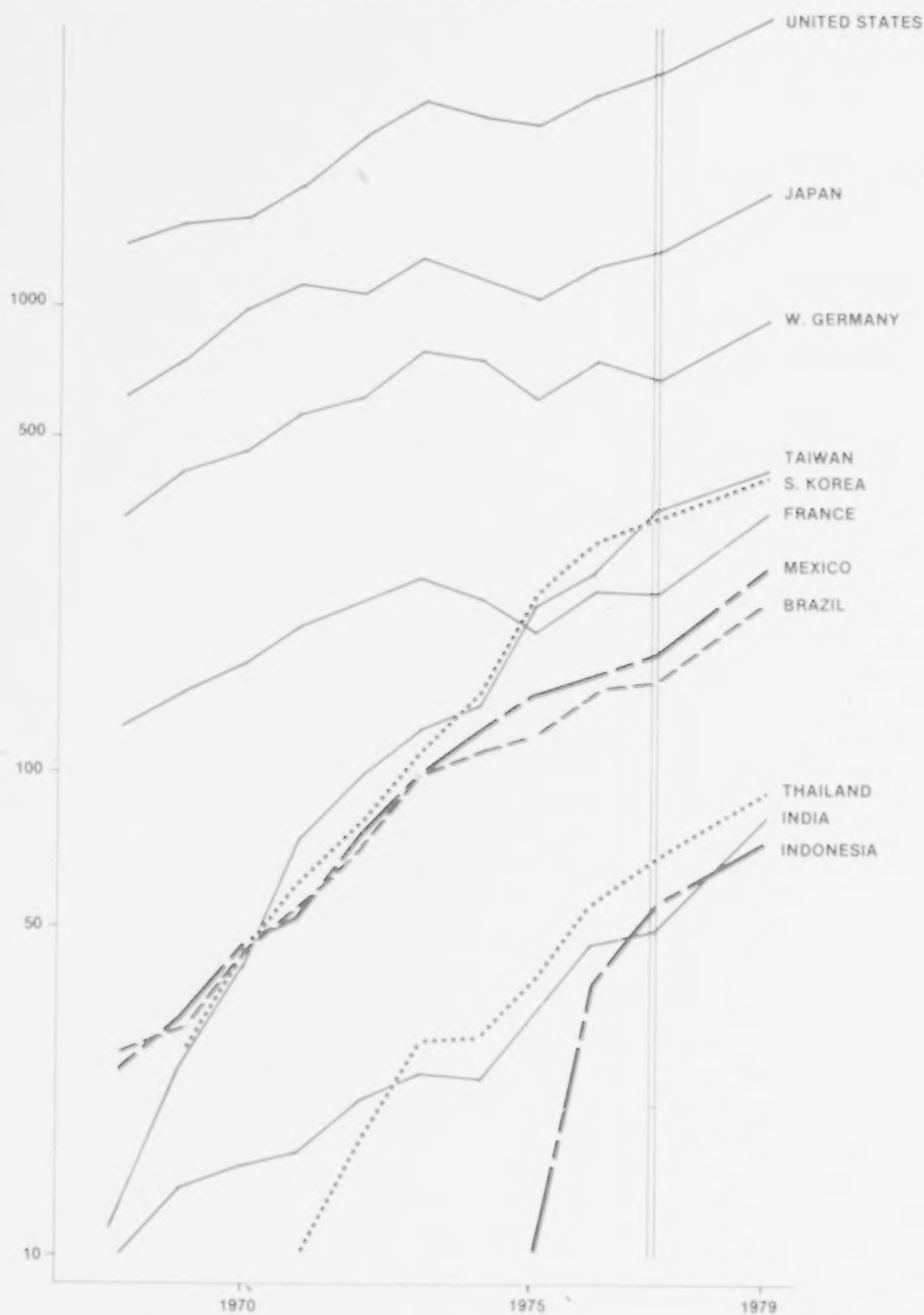
8. For an early exploration of the corporate planning implications of these propositions, see Lawrence G. Franko, "Strategic Planning for Internationalization," *Long Range Planning* (June 1973).

9. For a detailed study of the vulnerability of one such sector, the standardized commodity steel business, see Frank Wolter, "Perspectives for the International Location of the Steel Industry," Kiel working paper No. 60 (Kiel, Germany: Kiel Institute of World Economics, October 1977).

10. See Lawrence G. Franko, "Multinationals in the Middle East," *Journal of World Trade Law* (Summer 1976); and Louis Turner and James Bedore, "The Trade Politics of Middle Eastern Industrialization," *Foreign Affairs* (Winter 1978/1979).

11. See C.E.P.I., "Les économies industrialisées face à la concurrence du tiers monde," p. 75.

CHART 3-1: SYNTHETIC FIBER PRODUCTION IN SELECTED COUNTRIES,
WITH PRODUCTION CAPACITY FORECASTS FOR 1979*



*In thousands of metric tons.
Source: Textile Organon.

for firms, governments and workers to adjust over a moderately long period of time, given a modicum of foresight — and macroeconomic growth.

Whatever the time frame of adjustment, however, the essential problem will remain, for, as David Hume observed in 1752:

Manufactures gradually shift their places, leaving those countries and provinces which they have already enriched, and flying to others, whither they are allured by the cheapness of provisions and labor.¹²

¹² David Hume, "Of Money," in *Writings on Economics*, Eugene Rotwein, ed. (London: Nelson, 1955).

Policy Responses to Import Competition

4

CRISIS AND PROTECTIONIST REACTIONS

To date, the policy responses of the advanced countries to the advent of the LDC export thrust in manufactures have been ambivalent. Liberal measures, such as the generalized system of preferences (GSP), coexist with increasingly restrictionist, protective measures, such as the Multifibre Agreement (MFA) and Orderly Marketing Agreements, with ALDCs, such as Taiwan, Hong Kong, Singapore, and South Korea.¹ As a result of their export success, it is the ALDCs who have already had their preferential access under the GSP most severely restricted. The United States, the EC and other countries have placed numerous restrictions on preferences available to the ALDCs in textiles, leather goods, footwear, and certain electrical equipment. Notwithstanding these restrictions, the eight middle-to-upper income ALDCs discussed in Chapter 1 have recently managed to account for over one-half of all GSP imports by developed countries.²

Developed-country policies have also been reactive and, particularly in the United States, largely a matter of crisis management. Public adjustment policy in the United States has focused on after-the-fact adjustment assistance, and in very limited quantities at that.

The interconnections between LDCs' perceived balance-of-payments and capacity-to-import constraints to growth and the rigor of their export promotion and import protection policies do not appear to have been fully addressed. And, although suggestions have been made to the ALDCs that it is in their own interests to stop insisting on a lack of reciprocity, i.e., on preferences without obligations to reduce their own import barriers, it is not clear that the ALDCs—especially those that are heavily in debt—are yet convinced that either the financial market or the level-of-development preconditions for their acceptance of reciprocity have been established.

In the opinion of pessimistic observers, the situation has seemed to be tailor-made for further tacit impairment of the GATT system. Insofar as there has been a coherent thrust to U.S. and other developed-country actions, it has appeared increasingly restrictionist. Insofar as there has been a coherent thrust to the policies of the advanced LDCs, it has appeared mercantilist. Although the Tokyo Round has formally concluded, efforts to reform Article XIX by adding a safeguard code continue, and, if successful, could permit countries to employ a broader range of restrictions against the developing countries. Other straws in the protectionist

1. For details see IMF, *The Rise in Protectionism* (Washington, D.C., 1978).

2. OECD 1975 estimates.

wind are the recent negotiation by Europe of a much tougher MFA with the LDC exporters; American and European unions' support for a curtailment or reduction of GSP; and the continuing effort by U.S. unions to eliminate the Overseas Private Insurance Corporation (OPIC) on the grounds that the U.S. private investments in LDCs it insures might have a negative impact on U.S. jobs.

Fears of crisis and protectionist reactions are also stoked by the fact that, apart from several large multinational firms and a handful of industry associations, few public or private bodies gather systematic data on world industrial capacity growth by sector, or attempt to forecast foreign export thrusts (and their likely domestic or international consequences).³ Moreover, such anticipatory efforts have in general not easily been available to smaller firms and to labor.

CAN THE GATT SYSTEM BE SUSTAINED?

Nonetheless, mounting evidence suggests that apocalyptic visions of collisions between developed-country protectionism and ALDC mercantilism may be too extreme. True, several of the LDC exporters have appeared to be bent on an export race against time during the past three years. That race also included increased efforts to restrict imports by some (not all) ALDCs. But, in certain cases it was also so recognizably successful that some of the ALDCs have begun to take steps to liberalize trade. Policy makers in several of the ALDCs, especially in South Korea, Taiwan, Argentina, and even India, appear to have been as surprised as developed-country observers by their ability to turn their balances of trade around from deep 1974-75 deficits to more or less substantial surpluses by 1977. In some cases anticipating Western criticism, these countries (and less successful Mexico as well) have started to replace impermeable quantitative restrictions on imports with somewhat more permeable tariffs, to encourage government purchasing authorities to "buy foreign," and to allow previously pegged exchange rates to float, and even to appreciate, against the dollar (see Table 4-1).

The ALDCs still do not abide by full developed-country trading rules — although it is hard to fault free-trading Hong Kong and Singapore on any grounds other than their being too efficient for comfort. Mexico has recently indicated its intention to accede to the GATT, but neither it nor Taiwan are members at present. Now that Brazil is moving to reduce export subsidies, recognition that international economic success should beget international responsibility is being made by the leading LDC exporters of manufactures. These steps recently taken by the majority of the ALDCs toward trade liberalization, tentative though they may still be, suggest that there is indeed hope that, as the ALDCs recognize the extent of their own export success, they will move toward trade policies which will strengthen, rather than disrupt, the GATT system. Few, if any, of these countries appear to be running trade-account surpluses for their own sake. At the very

3 As mentioned in Chapter 3, an exception to this general reluctance is a study prepared for the Joint Economic Committee by Stephen B. Watkins and John R. Karlik on "Anticipating Disruptive Imports," which was published in *New International Realities* (NPA, Summer 1978), pp. 9-20. The work in process by Alexander Yeats at UNCTAD in Geneva from which Table 1-9 is derived is another example.

TABLE 4-1: MAJOR TRENDS IN THE TRADE POLICIES OF THE ALDCs, 1975-77

Hong Kong	Hong Kong has no significant trade barriers against imports from any source, nor does it subsidize exports. The Hong Kong dollar fluctuates against the U.S. dollar and has recently appreciated.
Taiwan	Taiwan's large trade surplus, especially the bilateral surplus with the United States, has led Taiwan to embark on a "Buy More in America" program in which public authorities have been directed to steer purchases to the United States, and in which import bans (e.g., on U.S. automobiles) have been lifted. Taiwan provides no preferential tariff rates to other countries and is not a member of GATT.
South Korea	A strong balance of payments has resulted in import liberalization "inching ahead." Quantitative restrictions were lifted in 1977 on a range of industrial intermediates and machine parts. "A timetable was set for near-total liberalization by 1982. The latest package will generate between U.S. \$200 and U.S. \$500 million of extra imports. It sets Seoul firmly on a course long neglected by its much richer neighbor, Japan." (<i>Far Eastern Economic Review</i> , May 26, 1978, p. 42.)
Singapore	Despite its export success, Singapore maintains a trade deficit (although it had approximately balanced trade with the United States in 1977). Fears of developed-country protectionism have already led Singapore to explore possibilities of expanding trade with lesser-developed countries, both in ASEAN, the Southeast Asian preferential trade area, and elsewhere (viz recent negotiations with Sri Lanka). Trade barriers to imports are generally low, and the appreciation of the Singapore dollar against the U.S. dollar suggests a willingness to allow exchange-rate movements to facilitate adjustment.
Brazil	Imports are subject to severe restrictions. Tariffs were increased substantially in 1975, after the oil price shock. Outright prohibitions of imports and prior-deposit requirements further restrict imports. Import substitution is pursued vigorously, as is export promotion of manufactures through subsidization and performance requirements placed on subsidiaries of foreign firms. Brazil is a member of LAFTA. Brazil has been a leader in attempts to get the generalized system of preferences (GSP) "bound" by the GATT and resists the idea that it should be promoted to developed or semideveloped status for GATT purposes.
India	"After 20 years of progressively tighter import controls, India is at last loosening the screws. . . . Several important categories of goods will no longer require import licenses. . . . India is rowing against the stream of world protectionism because its current-account surpluses and growing foreign exchange holdings mean that it has been, in effect, lending interest-free to industrialised countries like the United States. . . . the loosening of controls also reflects a conviction that India's capital goods manufacturers are no longer infant industries. . . ." (<i>The Economist</i> , April 8, 1978, p. 88.)
Mexico	Through 1976, Mexico maintained draconian import-licensing procedures and prohibitions. Since 1977, there has been increased reliance on exchange-rate adjustments and a trend toward gradual replacement of licensing and prohibitions with tariffs (albeit often very high tariffs). Observers are optimistic about some trade liberalization, particularly as Mexican oil exports become significant. This optimism has been increased by Mexico's apparent intentions to accede to the GATT. <i>International Herald Tribune</i> (February 3-4, 1979, p. 9.) LAFTA preferences have been given to other Latin American LDCs, but Mexico runs a strong trade surplus with less-developed LAFTA (excluding Brazil and Argentina).
Argentina	An increasingly strong reserve position has led Argentina to liberalize some imports and to reduce tariffs. In 1977, Argentina "was one of the world's most rapidly growing markets for U.S. exports."

Sources: U.S. Commerce Department, *Foreign Economic Trends and Their Implications for the United States*, various issues; *Far Eastern Economic Review*, various issues; discussions with U.S. trade policy officials; "India: Importing Can Be Fun," *The Economist* (April 8, 1978), p. 88; and *International Herald Tribune* (February 3-4, 1979), p. 9.

least, convicting the ALDCs of mercantilism on the basis of only two years of trade success—after their 1974–75, post-OPEC trade-balance disasters—would appear premature. These countries can make a plausible case that they have only been following the prudent balance-of-payment policies recommended to them by the IMF and the international financial community. It is true that their foreign-exchange reserves have been increasing, but it is equally true that these ALDCs, with Brazil and Mexico in the lead, carry the bulk of all indebtedness of nonoil LDCs to private banks. However, if these countries' debt service-to-export burdens reach more normal levels, as they are expected to, neither trade liberalization nor graduation to semideveloped status would seem an impossible or excessive request from their OECD trading partners.

POSSIBLE POLICY OPTIONS

The OECD countries have a number of policy options at their disposal which could enhance the probabilities that an optimistic scenario would come true. Perhaps the most important measures these advanced countries could take would be to resolve the global macroeconomic problems of stagnating investment and stagnating exports. Such measures would allow employment to be created in OECD countries to offset employment losses due to LDC export thrusts. Useful measures would include: lowering of the rate of inflation and reduction of the concomitant uncertainty it creates; less haphazard domestic regulation of industry in OECD countries; and a much expanded IMF, or a refinancing of the excessively short-term indebtedness of the ALDCs via the World Bank and national export-import banks or guarantees and insurance by such organizations to promote longer-term private lending. Perhaps most useful of all as an alternative to protecting industries suffering from overcapacity problems might be measures to stimulate production in the one sector of notable undercapacity at current levels of economic activity—energy. The contractionary effects of the OPEC tax and of uncertain energy prices on investment decisions are surely not the least of current economic problems.⁴ Truisms are, after all, true, and it is certainly a truism that trade and structural adjustment problems are easier to cope with in times of general expansion than during a slump.

Nonetheless, more than macroeconomic measures are likely to be called for in dealing with the problems of particular sectors subjected to sudden import competition. Trade and financial policies have roles to play: within a wide range of macroeconomic, growth and balance-of-payments constraints, it may be productive to consider offering the advanced LDCs (some of whose plants are more modern than those of the advanced OECD countries) GSP only on the condition that they liberalize some of *their* trade barriers, especially on manufactured products of interest to poorer LDCs, but also on their trade with each other. Other means of encouraging South-South trade may be found. Aid agencies and

4. For a fuller exposition, see the author's article, "Developing Country Debt, Trade and Prospects for World Economic Growth," in L.G. Franko and M. Seiber, eds., *Developing Country Debt* (N.Y. and London: Pergamon Press, forthcoming 1979).

multilateral financial institutions could be urged to encourage intratrade by helping LDCs overcome shortages of export financing for such trade, as well as by untangling aid in the case of LDC desires to purchase from other LDCs (a practice already partly the case). On the North-South axis, perhaps the LDC exporters' obvious interest in maintaining access to OECD markets could be traded off against a set of rules and procedures limiting export or other subsidies and export performance contracts entered by hostage affiliates of foreign firms—particularly as LDCs graduate to upper-tier advanced status.⁵

Labor-market policy should also not be forgotten. LDC import competition does cause the loss to the economy of jobs for unskilled, but high-priced, new entrants into the workforce. Creation of higher-skilled jobs through expanding exports to LDCs or through macroeconomic growth will not alone cure this side-effect of LDC import penetration. An educational and training effort which is not now in place may be required.

In sum, the increasing interdependence of the U.S. economy with the advanced and advancing LDCs may oblige an updating of elements of both trade and domestic economic policies into something more nearly resembling an industrial strategy. The U.S. economy is far too complex for planning of even the loose "indicative" variety. (Indeed, partly as a result of the increasing openness of its economy, France, the homeland of indicative planning, is currently substantially decentralizing its economic management.⁶) It is implausible that the United States has decided that social dislocations, crisis management and emergency makeshift protection are necessarily to be preferred to the planning implied by becoming aware of what the next industrial thrust of the LDCs might be. Current discussion of "positive" adjustment policies suggests a growing awareness of a need for more than either small after-the-fact adjustment-assistance payments to displaced workers or reactive protection. During the early days of the now defunct White House Council on International Economic Policy, there was talk of an Office of Competitive Assessment and an early warning system for sudden import increases. The proposal was stillborn with the advent of flexible exchange rates which, despite the fact that most LDCs until recently have pegged their rates to the dollar, were assumed by some to solve such problems. Perhaps such an entity might be reconsidered before other sectors are surprised . . . and having been surprised, seek protection.

Responding only to crises after the fact, with options at that point largely constrained to a set of choices among protectionism, *laissez faire* or marginal assistance to (some of) those affected, may no longer be effective. One key to broadening the range of public and private policy responses may be more micro-level, in-depth sectoral studies of changing production locations and competitive advantages which could provide firms and workers in the United States and other advanced countries with another early warning of likely disruptions.

The U.S. and other governments could facilitate private forecasting of likely import thrusts on a disaggregated product-by-product basis by more readily mak-

⁵ Progress on this front appears in the subsidies code component of the recently concluded Tokyo Round negotiations.

⁶ See Paul Lewis, "The French Adjustment," *European Community* (November-December 1978), No. 210, p. 23.

ing available data on trade and on domestic consumption and production which are easily comparable with one another. The two sets are collected according to different classification schemes, and while they can be melded together—as was done to form Table 1-9—doing so could be made less expensive and complex, and made available with some regularity. Employment data in specific microeconomic sectors are frequently unavailable. The one existing attempt to make even a subjective assessment of the likely future disruptiveness of LDC exports of manufactures on U.S. jobs found that, of 158 product categories in which U.S. imports from LDCs were growing rapidly and in which a U.S. industry existed, no information was available on domestic U.S. employment in 76 categories, and that in 36 of the remaining product categories, the latest data were for 1972 when the most recent U.S. industrial census was undertaken.⁷ These *lacunae* arguably inhibit private efforts to assess the likelihood of forthcoming disruption.

Neoclassical economists assume that markets work—but only given perfect information. In the absence of advance warning, structural adjustment is necessarily a surprise and a disruption which, to those industries, firms and workers affected, makes protection look much less costly than a market solution of sudden disappearance. Foresight could provide one means of squaring the circle of the long-term search for the free-trade optimum and the immediate problems of industries in trouble.

7. Derived from Watkins and Karlik, "Anticipating Disruptive Imports," Appendix. It is provocative, although hardly conclusive, that Watkins and Karlik assessed U.S. firms and labor to be "highly vulnerable" in only 18 of the 158 product groups. These product groups were: baskets and bags; men's and boys' coats, jackets and suits; women's, girls' and infants' shirts, sweaters and shears; power transmission chains; tape players and recorders; miscellaneous audio equipment; TV apparatus and parts; electrical capacitors; electronic tubes; women's non-rubber footwear; athletic footwear; slippers; leather gloves; umbrellas; rubber and plastic wearing apparel; leather wearing apparel; and bicycle parts, tires and tubes. The report states that: "In general, an industry was rated as highly vulnerable if it was already experiencing declines in production and employment or if these quantities had been constant for several years in the face of rapidly expanding U.S. consumption of its product" (p. 12).

APPENDIX 1: TRADE PATTERNS OF THE ADVANCED LDCs, 1974-77:
Changes in Total Imports and Exports Trade with Yet Lesser-Developed LDCs,
and Trade with the United States
 (Billions of current U.S. dollars, trade in goods only)

Source: IMF, *Direction of Trade*, various issues.

HONG KONG	1974	1975 (billions of U.S. dollars)	1976	1977
Exports and Imports				
1. Total exports	\$5.95	\$6.01	\$8.52	\$9.62
2. Exports to nonoil LDCs	1.25	1.17	1.53	1.90
3. Exports to nonoil, non-upper-tier LDCs (LLDCs)	0.64	0.61	0.82	1.06
4. Total imports	6.76	6.76	8.88	10.45
5. Imports from nonoil LDCs	1.55	1.65	2.37	2.63
6. Imports from nonoil LLDCs	0.57	0.59	0.72	0.85
Trade with LLDCs				
7. Trade balance with LLDCs (3 - 6)	0.07	0.02	0.10	0.21
8. Imports from LLDCs as a percent of total imports (6 ÷ 4 x 100)	8.4%	8.7%	8.1%	8.1%
Trade with U.S.				
9. Exports to U.S.	1.57	1.58	2.48	3.09
10. Imports from U.S.	0.91	0.79	1.08	1.30
11. Trade balance with U.S. (9 - 10)	0.66	0.79	1.40	1.79
12. Δ Imports from U.S.	+ 21%	- 15%	+ 27%	+ 17%
13. Δ Total imports	+ 17%	0%	+ 24%	+ 15%
14. Exports to U.S. as a percent of total exports	26.4%	26.3%	29.1%	32.1%
15. Imports from U.S. as a percent of total imports	13.5%	11.7%	12.2%	12.4%

Δ = change in.

TAIWAN	1974	1975 (billions of U.S. dollars)	1976	1977
Exports and Imports				
1. Total exports	\$5.52	\$5.29	\$8.15	\$9.34
2. Exports to nonoil LDCs	1.06	1.05	1.53	1.76
3. Exports to nonoil, non-upper-tier LDCs (LLDCs)	0.41	0.41	0.60	0.77
4. Total imports	6.98	5.91	7.61	8.52
5. Imports from nonoil LDCs	0.76	0.52	0.75	1.09
6. Imports from nonoil LLDCs	0.46	0.32	0.43	0.51
Trade with LLDCs				
7. Trade balance with LLDCs (3 - 6)	-0.05	0.09	0.17	0.26
8. Imports from LLDCs as a percent of total imports (6 ÷ 4 x 100)	7%	5%	6%	6%
Trade with U.S.				
9. Exports to U.S.	2.04	1.82	3.06	3.65
10. Imports from U.S.	1.68	1.63	1.80	2.18
11. Trade balance with U.S. (9 - 10)	0.36	0.19	1.26	1.47
12. Δ Imports from U.S.	48%	-3%	-9%	-18%
13. Δ Total imports	46%	-18%	23%	11%
14. Exports to U.S. as a percent of total exports	36.9%	34.4%	37.5%	39.0%
15. Imports from U.S. as a percent of total imports	24.1%	27.6%	23.7%	25.6%

Δ = change in.

SINGAPORE	1974	1975 (billions of U.S. dollars)	1976	1977
Exports and Imports				
1. Total exports	\$5.80	\$5.37	\$6.58	\$8.24
2. Exports to nonoil LDCs	2.59	2.52	2.83	3.62
3. Exports to nonoil, non-upper-tier LDCs (LLDCs)	1.98	1.45	1.99	2.56
4. Total imports	8.38	8.13	9.07	10.42
5. Imports from nonoil LDCs	2.22	2.00	2.59	2.93
6. Imports from nonoil LLDCs	1.73	1.57	1.96	2.10
Trade with LLDCs				
7. Trade balance with LLDCs (3 - 6)	0.25	-0.12	0.03	0.46
8. Imports from LLDCs as a percent of total imports (6 ÷ 4 x 100)	21%	20%	22%	20%
Trade with U.S.				
9. Exports to U.S.	0.86	0.74	0.96	1.27
10. Imports from U.S.	1.17	1.27	1.19	1.32
11. Trade balance with U.S. (9 - 10)	-0.31	-0.53	-0.23	-0.05
12. Δ Imports from U.S.	33%	-10%	-7%	10%
13. Δ Total imports	38%	-3%	10%	13%
14. Exports to U.S. as a percent of total exports	14.8%	13.8%	14.6%	15.4%
15. Imports from U.S. as a percent of total imports	14.1%	15.6%	13.1%	12.7%

Δ = change in.

SOUTH KOREA	1974	1975 (billions of U.S. dollars)	1976	1977
Exports and Imports				
1. Total exports	\$4.46	\$5.08	\$7.71	\$10.00
2. Exports to nonoil LDCs	0.51	0.66	0.98	n.a.
3. Exports to nonoil, non-upper-tier LDCs (LLDCs)	0.24	0.35	0.48	n.a.
4. Total imports	6.85	7.27	8.77	10.81
5. Imports from nonoil LDCs	0.61	0.63	0.71	n.a.
6. Imports from nonoil LLDCs	0.43	0.39	0.54	n.a.
Trade with LLDCs				
7. Trade balance with LLDCs (3 - 6)	-0.19	-0.04	-0.06	n.a.
8. Imports from LLDCs as a percent of total imports (6 - 4 x 100)	6%	5%	6%	n.a.
Trade with U.S.				
9. Exports to U.S.	1.49	1.53	2.49	3.05
10. Imports from U.S.	1.70	1.88	1.96	2.52
11. Trade balance with U.S. (9 - 10)	-0.21	-0.35	0.53	0.53
12. Δ Imports from U.S.	29%	10%	4%	22%
13. Δ Total imports	38%	6%	17%	18%
14. Exports to U.S. as a percent of total exports	33.4%	30.1%	32.2%	30.5%
15. Imports from U.S. as a percent of total imports	24.8%	25.8%	22.3%	23.3%

Δ = change in

BRAZIL	1974	1975 (billions of U.S. dollars)	1976	1977
Exports and Imports				
1. Total exports	\$7.95	\$8.67	\$10.13	\$12.13
2. Exports to nonoil LDCs	1.27	1.63	1.56	n.a.
3. Exports to nonoil, non-upper-tier LDCs (LLDCs)	0.84	1.07	1.01	n.a.
4. Total imports	14.16	13.59	13.62	13.22
5. Imports from nonoil LDCs	1.39	1.08	1.53	n.a.
6. Imports from nonoil LLDCs	0.80	0.65	0.56	n.a.
Trade with LLDCs				
7. Trade balance with LLDCs (3 - 6)	0.04	0.42	0.45	n.a.
8. Imports from LLDCs as a percent of total imports (6 ÷ 4 x 100)	6%	5%	4%	n.a.
Trade with U.S.				
9. Exports to U.S.	1.73	1.33	1.84	2.03
10. Imports from U.S.	3.43	3.38	3.12	2.73
11. Trade balance with U.S. (9 - 10)	-1.70	-2.05	-1.28	-0.70
12. Δ Imports from U.S.	33%	-1%	-8%	-14%
13. Δ Total imports	51%	-4%	0	-4%
14. Exports to U.S. as a percent of total exports	21.8%	15.3%	18.1%	16.7%
15. Imports from U.S. as a percent of total imports	24.2%	24.9%	22.9%	20.7%

Δ = change in

INDIA	1974	1975 (billions of U.S. dollars)	1976	1977
Exports and Imports				
1. Total exports	\$3.92	\$4.29	\$4.98	\$5.65
2. Exports to nonoil LDCs	0.63	0.77	0.91	n.a.
3. Exports to nonoil, non-upper-tier LDCs (LLDCs)	0.50	0.60	0.78	n.a.
4. Total imports	5.04	6.13	4.95	5.84
5. Imports from nonoil LDCs	0.41	0.40	0.40	n.a.
6. Imports from nonoil LLDCs	0.32	0.32	0.29	n.a.
Trade with LLDCs				
7. Trade balance with LLDCs (3 - 6)	0.18	0.28	0.49	n.a.
8. Imports from LLDCs as a percent of total imports (6 ÷ 4 x 100)	6%	5%	6%	n.a.
Trade with U.S.				
9. Exports to U.S.	0.50	0.47	0.72	0.78
10. Imports from U.S.	0.70	1.38	1.24	0.88
11. Trade balance with U.S. (9 - 10)	-0.20	-0.91	-0.52	-0.10
12. Δ Imports from U.S.	28%	49%	11%	-49%
13. Δ Total imports	36%	18%	5%	13%
14. Exports to U.S. as a percent of total exports	12.8%	11.0%	14.5%	13.8%
15. Imports from U.S. as a percent of total imports	13.9%	22.5%	25.1%	15.1%

Δ = change in

ARGENTINA	1974	1975 (billions of U.S. dollars)	1976	1977
Exports and Imports				
1. Total exports	\$3.93	\$2.96	\$3.91	\$5.80
2. Exports to nonoil LDCs	1.12	0.85	1.15	n.a.
3. Exports to nonoil, non-upper-tier LDCs (LLDCs)	0.64	0.42	0.61	n.a.
4. Total imports	3.63	3.94	3.03	4.40
5. Imports from nonoil LDCs	0.86	0.97	0.92	n.a.
6. Imports from nonoil LLDCs	0.49	0.52	0.51	n.a.
Trade with LLDCs				
7. Trade balance with LLDCs (3 - 6)	0.15	(0.10)	.10	n.a.
8. Imports from LLDCs as a percent of total imports (6 ÷ 4 x 100)	13%	14%	17%	n.a.
Trade with U.S.				
9. Exports to U.S.	0.33	0.19	0.28	0.37
10. Imports from U.S.	0.61	0.64	0.54	0.80
11. Trade balance with U.S. (9 - 10)	- 0.28	- 0.45	- 0.26	- 0.43
12. Δ Imports from U.S.	22%	4%	- 18%	33%
13. Δ Total imports	38%	8%	- 30%	31%
14. Exports to U.S. as a percent of total exports	8.4%	6.4%	7.2%	6.4%
15. Imports from U.S. as a percent of total imports	16.8%	16.2%	17.8%	18.2%

Δ = change in.

MEXICO	1974	1975 (billions of U.S. dollars)	1976	1977
Exports and Imports				
1. Total exports	\$2.98	\$2.95	\$3.31	\$4.16
2. Exports to nonoil LDCs	0.40	0.43	0.49	n.a.
3. Exports to nonoil, non-upper-tier LDCs (LLDCs)	0.26	0.28	0.30	n.a.
4. Total imports	6.05	6.58	6.03	5.48
5. Imports from nonoil LDCs	0.32	0.52	0.43	n.a.
6. Imports from nonoil LLDCs	0.20	0.21	0.24	n.a.
Trade with LLDCs				
7. Trade balance with LLDCs (3 - 6)	0.06	0.07	0.06	n.a.
8. Imports from LLDCs as a percent of total imports (6 - 4 x 100)	3%	3%	4%	n.a.
Trade with U.S.				
9. Exports to U.S.	1.70	1.66	1.87	2.60
10. Imports from U.S.	3.77	4.11	3.77	3.65
11. Trade balance with U.S. (9 - 10)	-2.07	-2.45	-1.90	-1.05
12. Δ Imports from U.S.	46%	8%	-9%	-3%
13. Δ Total imports	41%	8%	-9%	-10%
14. Exports to U.S. as a percent of total exports	57.0%	56.3%	56.5%	62.5%
15. Imports from U.S. as a percent of total imports	62.3%	62.5%	62.5%	66.6%

Δ = change in.

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